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BEFORE THE ARIZONA CORPORATION COMMISSION

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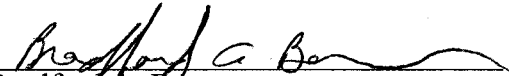
IN THE MATTER OF THE COMPETITION
IN THE PROVISION OF ELECTRIC
SERVICES THROUGHOUT THE STATE OF
ARIZONA.

DOCKET NO. U-0000-94-165

NOTICE OF FILING

Staff hereby gives notice of filing its invitation and agenda for a workshop scheduled
for August 12, 1996 regarding electric industry restructuring.

RESPECTFULLY SUBMITTED this 23rd day of July, 1996.


Bradford A. Borman
Attorney, Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
(602) 542-3402

Original and ten (10) copies of the
foregoing filed this 23rd day of July,
1996, with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007


Copies of the foregoing were mailed
by the Utilities Division this 23rd
day of July, 1996 to:

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Arizona Corporation Commission
DOCKETED

JUL 23 1996

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JAMES MATTHEWS
EXECUTIVE SECRETARY

ARIZONA CORPORATION COMMISSION

July 19, 1996

Dear Colleague:

RE: Docket No. U-0000-94-165

You are invited to a workshop on electric industry restructuring on **August 12, 1996**. The purpose of this workshop is to explore and obtain feedback on a limited number of options for introducing retail electric competition. A copy of the agenda is enclosed.

The workshop will focus on two "composite rules" which we synthesized from the comments received on June 28, 1996. These composite rules are presented in outline form and are attached to the agenda.

After the workshop, Staff will prepare a draft rule on competition. We will then solicit comments on the draft rule.

The August 12th workshop will be held at:

**Arizona Corporation Commission
Hearing Room
1200 West Washington
Phoenix, Arizona 85007**

We will start at **9:00 a.m.** Following the introduction, we will split into three smaller subgroups to facilitate discussion.

Thank you for your continued participation in our investigation. If you have any questions please call me at (602) 542-4251 or David Berry at (602) 542-0742.

Sincerely,

Gary Yaquinto
Director
Utilities Division

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ELECTRIC INDUSTRY RESTRUCTURING WORKSHOP AGENDA
Docket No. U-0000-94-165

August 12, 1996
Arizona Corporation Commission
Hearing Room
1200 West Washington
Phoenix, Arizona 85007

- Purpose:** To explore and obtain feedback on a small number of options (which are attached to the agenda) for introducing retail electric competition. Staff will use the results of the workshop to help in drafting a proposed rule to introduce retail electric competition.
- 9:00 - 9:15** Introduction & Overview: for discussion purposes we have synthesized two Composite Rules (A & B) from comments received in response to Staff's request for comments on Electric Industry Restructuring. In addition, we have drafted a preliminary list of constant features that would be incorporated in any proposed rule developed by Staff. General Q & A on Composite Rules.
- 9:15 - 9:25** Review of Workshop Procedures -- Split workshop into three groups meeting in separate rooms to facilitate discussions.
- 9:30 - 10:15** Discuss Implementation of "Constant Features" of Rules
- 10:15 - 10:30** Break
- 10:30 - 11:30** Discuss strengths & weaknesses of Composite Rules A & B
- 11:30 - 12:30** Lunch (on your own)
- 12:30 - 1:30** Continue discussion of strengths & weaknesses of Composite Rules A & B
- 1:30 - 2:30** Invent additional option(s)/ Modify Composite Rules A & B.
- 2:30 - 2:45*** Wrap-up in individual sessions.

After the workshop, Staff will prepare a brief summary of working group discussions for distribution.

- * If necessary, to finish discussions, we can extend the workshop until 4:00 p.m.

OPTIONS FOR DISCUSSION AT AUGUST WORKSHOP

For discussion purposes we have synthesized two Composite Rules (A & B) from comments received in response to Staff's request for comments on Electric Industry Restructuring. In addition, we have drafted a preliminary list of constant features that would be incorporated in any proposed rule developed by Staff.



Constants: Features Included in All Options

1. **Members of All Classes of Consumers Will Be Able To Shop Around & Choose Generators/Aggregators from the Beginning Phase of Competition.**
2. **Utilities and, if Established, the Independent System Operator Must Provide Unbundled Transmission, Distribution, and Ancillary Services** to all who want them at nondiscriminatory, regulated rates, at least until there is demonstrated competition in the provision of these services.
3. **Utilities Shall Provide "Standard Offer," Bundled Service** at regulated rates to consumers who do not or cannot shop around until competition is fully established.
4. **Rates for Customers Not in the Competitive Market** would not be increased due to competition until a competitive market is fully established.
5. **Certificates of Convenience and Necessity** will be required of all sellers in competitive markets. Compliance with Commission rules will be required.
6. **In-State Reciprocity** would prohibit existing utilities from selling services outside their service territories if they do not allow competition in their own service territories.
7. **System Benefits Charges** would be used to recover costs of Commission-approved programs for low income customers, DSM, environmental protection, renewables, and nuclear power plant decommissioning through non-bypassable charges on all participants in the competitive market.
8. **Service Quality** would be promoted through requirements to offer safe service, rapid restoration of firm service, and cooperation among suppliers to ensure safe, reliable service.
9. **Billing Requirements and Complaint Procedures** would be similar to current service standards and procedures.
10. **Regular Reports** would be required to keep the Commission current on market developments.
11. **Books and Records** must be kept by sellers regarding accounting and financial information.
12. **Maintenance of System Reliability** would be promoted via subscription to NERC/WSCC standards.
13. **Renewables** will be encouraged.

Composite Rule A***Phased-In Full Competition with Mitigated Stranded Investment**

- Approach: ♦ Phase in competition starting around 2000 and completing phase-in about 4 years later:
- All utilities affected except co-ops located largely in other states.
 - Method for selecting consumers who will participate in early phase, e.g., first-come first-served, or lottery.
 - Use period prior to 2000 to resolve legal issues and prepare for competition.
- ♦ Allow consumers or aggregators to shop around prior to 2000 on a limited basis:
- for example, via buy-throughs with capped utility mark-up.
- ♦ Stranded investment avoided through mitigation prior to start of competition. Stranded investment recovery during early phases (i.e., up to 2004). Such stranded investment recovery would be reviewed by the Commission on a case-by-case basis, considering: impacts on effectiveness of competition, impacts of partial or no recovery on the utility and its shareholders/debtholders, impacts on prices paid for electricity, mitigation of stranded investment, negative stranded investment, & ease of determining stranded investment. Stranded investment recovery would be reviewed regularly.
- ♦ Solar portfolio standard to promote renewables.
- Market: ♦ Bilateral contracts among consumers and sellers for central station generation or for distributed generation (located near point of consumption); market rates.
- ♦ Spot market may develop as well.
 - ♦ Possible later development of independent system operator.
 - ♦ Possible competitive market for some ancillary services.

* See Constants for additional features.

Composite Rule B***Phased-In Full Competition with Quicker Start****Approach:**

- ◆ Phase in competition starting around late 1997 or 98, completing phase-in about 4 years later:
 - All utilities affected except co-ops located largely in other states.
 - First phase may be conducted as "pilot" which will be used to refine subsequent phases.
 - Method for selecting consumers who will participate in early phase, e.g., first-come first-served, lottery, geographic areas.
- ◆ Stranded investment recovery reviewed by the Commission on a case-by-case basis, considering: impacts on effectiveness of competition, impacts of partial or no recovery on the utility and its shareholders/debtholders, impacts on prices paid for electricity, mitigation of stranded investment, negative stranded investment, & ease of determining stranded investment. Stranded investment recovery would be reviewed regularly and would end at a specified date.
- ◆ Solar portfolio standard to promote renewables.

Market:

- ◆ Bilateral contracts among consumers and sellers for central station generation or for distributed generation (located near point of consumption); market rates.
- ◆ Spot market may develop as well.
- ◆ Possible later development of independent system operator.
- ◆ Possible competitive market for some ancillary services.

* See Constants for additional features.